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Question: 2. [AICPA Adapted] Dewitt Co. budgeted its activity for Octob...

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2. [AICPA Adapted] Dewitt Co. budgeted its activity for October 2004 from the following information:

- ☑ Sales are budgeted at \$750,000. All sales are credit sales and a provision for doubtful accounts is made monthly at the rate of 2 percent of sales.
- ☑ Merchandise inventory was \$120,000 at September 30, 2004, and an increase of \$10,000 is planned for the month.
- ☑ All merchandise is marked up to sell at invoice cost plus 50 percent.
- ☑ Estimated cash disbursements for selling and administrative expenses for the month are \$105,000.
- ☑ Depreciation for the month is projected at \$25,000.

Dewitt is projecting operating income for October 2004 in the amount of

a. \$105,000. b. \$119,000. c. \$129,000. d. \$230,000

the answer is A, but i'm not sure how they calculated the cost of goods sold (750/cost + .5Cost). Can someone work out the problem and show where they get each number and how they calculated it?

Expert Answer

Was this answer helpful?



General guidance

Concepts and reason

Accounting: Accounting is a process of recording the transactions, classifying them in a specific manner, and is the process of summarizing and analyzing to interpret the results. It is a process of preserving the accounts.
Budget: Budget is a quantitative estimate of the work to be performed. It acts as a tool for the activities to be performed in the future. It is the process of planning before acting.

Fundamentals

Sales: Sales is an activity of selling the goods in the market, which is sold by a seller and purchased by a buyer. It is the main source of revenue for the company. It is necessary to have consideration for sales.
Inventory: Inventory refers to the goods purchased by the company from manufacturers and are resold to the customers. Transportation charges at the time of purchase, storage, insurance cost, and many more are included in the merchandise inventory account. Inventory is one of the important current assets of the company.
Cost of goods sold: The costs that are incurred by a business to sell products in a particular period are called as cost of goods sold. It is also known as cost of sales. It is considered to be as expense of the current period.
Net operating income: Net operating income is the income calculated after deducting the total operating income and deducting all operating expenses and non-operating expenses. It is also termed as Earnings before Interest and Taxes.
Depreciation: Depreciation is the process of reducing the value of the assets. It is a non-cash expense of the company. The value of assets is reduced due to the wear and tear caused for assets by its usage.

Show less ^

Step-by-step

FIRST STEP | ALL STEPS | ANSWER ONLY

Step 1 of 2 ^

Calculate the cost of goods sold:

$$\begin{aligned} \text{Cost of goods sold} &= \frac{\text{Sales}}{\text{Percentage of sales}} \\ &= \frac{\$750,000}{1.50} \\ &= \$500,000 \end{aligned}$$

Therefore, the cost of goods sold is \$500,000.

Explanation | Hint for next step

It is mentioned to calculate the operating income for October 2004. Thus, it is calculated by deducting the cost of goods sold. The cost of goods sold is calculated by dividing the sales by the percentage of sales. Therefore, the cost of goods

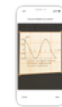
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Step 2 of 2

2) Calculate the operating income for October 2004:

	A	B
1	Particulars	Amount
2	Sales	\$750,000
3	Cost of goods sold	-\$500,000
4	Administration expenses	-\$105,000
5	Depreciation	-\$25,000
6	Provision for bad and doubtful debts	-\$15,000
7	Operating income	\$105,000

Therefore, the operating income for October 2004 is \$105,000.

Working notes:

Calculation is given below:

	A	B
1	Particulars	Amount
2	Sales	750000
3	Cost of goods sold	-500000
4	Administration expenses	-105000
5	Depreciation	-25000
6	Provision for bad and doubtful debts	=-750000*2%
7	Operating income	=SUM(B2:B6)

Part 2

The operating income for October 2004 is \$105,000.

Explanation | Common mistakes

It is mentioned to calculate the operating income for October 2004. Thus, it is calculated by deducting the cost of goods sold, administration expenses, depreciation, and the provision for bad and doubtful debts from the sales. Therefore, the operating income for October 2004 is \$105,000. The provision for bad and doubtful debts is calculated by multiplying the sales with the percentage of sales. Thus, the provision for bad and doubtful debts is \$15,000.

Answer

Part 2

The operating income for October 2004 is \$105,000.

Up next for you in Accounting

The shareholders' equity of Green Corporation includes \$354,000 of \$1 par common stock and \$540,000 par value

[See answer](#)

c. Net income before income tax of \$150,000 is desired after covering \$410,000 of fixed cost. What minimum contribution margin ratio must be maintained if

[See answer](#)

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Q: Lamonte Co. budgeted its activity for April 2017 from the following information: Sales are budgeted at \$50,000. All sales are credit sales and a provision for doubtful accounts is made monthly at a rate of 2% of sales. Estimated cash disbursements for selling and administrative expenses for the month are \$10,000. Depreciation for the month is projected at \$5,000. Other information...

A: [See step-by-step answer](#)

Q: Hester Company budgets on an annual basis for its fiscal year. The following beginning and ending inventory levels (in units) are planned for the fiscal year of July 1, 20x2, through June 30, 20x3. July 1, 20x2 June 30, 20x3 Raw material (note) 40,000 10,000 Work in process 8,000 8,000 Finished goods 30,000 5,000 (note) Three units of raw material are needed to produce each unit of...